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Advertising Age®

Crain's International Newspaper of Marketing

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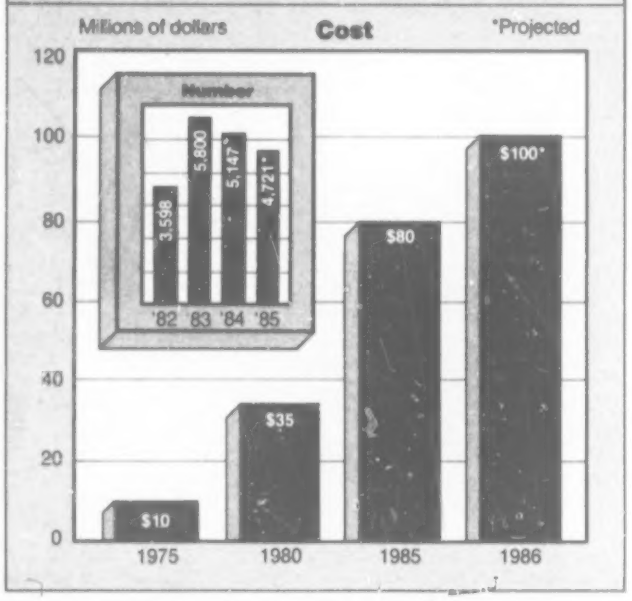
Megamergers

The mighty urge to merge

Launching new products

The cost of new products has increased tenfold during the 1980s, and is expected to top $100 million per launch next year. This has slowed the number of introductions (inset) while increasing the value of existing brand names. (See story on P. 46.) *Sources: Mark S. Albion, Harvard University, and Marketing Intelligence Service, Naples, N.Y. (inset).*



Big-name buyers bag brands

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An Advertising Age roundup

In recent weeks, the business world watched as almost $15 billion and about 400 brand names changed hands in rapid-fire sequence. Before the dust began to settle, Procter & Gamble owned Richardson-Vicks, Philip Morris Inc. had General Foods, R.J. Reynolds Industries consumed Nabisco Brands and Monsanto took G.D. Searle & Co.

Three megacompanies cracked the $1 billion-a-year advertising barrier in the space of six weeks. Three different times the honor of being the biggest American advertiser was passed from one to the other, finally landing back with perennial leader P&G. And with Pantry Pride and Forstmann Little vying to pay about $2 billion for Revlon, and untold billions still on the prowl for food and healthcare companies, the dust hasn't settled yet.

No company is safe from acquisition, not even Beatrice Cos., which acquired Esmark last year. The hunters have become the hunted. Even P&G was moved this month to stagger directors' terms and adopt other antitakeover measures.

In the wake of this merger mania, brand managers went to work one morning to discover that someone new was sharing their offices. And its name was Wall Street. The brand name suddenly has emerged as the most coveted corporate asset of all. And with each megamerger, new marching orders are being written for marketers and brand managers.

In the past, brands contributed to the bottom line. Now, the bottom line is burdened with huge debt ratios incurred through acquisitions, and brand management is burdened with new and severe pressures to carry the day. Brands no longer are merely products competing for market share; they're annuities being plugged into the big-money equations of corporate acquisitions, and share is no longer, in itself, enough. Brand performance must prove the wisdom of what already is a $20 billion gamble and growing.

To Wall Street, the established brand name looks better than money in the bank. It has all the makings of a once-in-a-lifetime chance for the big to get huge. Fish can even swallow whales, as Capital Cities Communications demonstrated by acquiring ABC Inc.

It has become wiser to grab somebody else's established brands and extend the lines than spend $80 million or more trying to get a new name into the mix. Convinced it was on to something, Wall Street started measuring the value of brand names against new and different equations. When the calculating was over, Wall Street could argue that paying more

(Continued on Page 38)

Inside

• **"Merger mania" roundtable:** Seven leading marketing and agency execs speak out on mergers' effect on marketing. Page 36.
• **Agencies expect new** conflict rules to emerge as the rash of megamergers put brand accounts up for grabs. Page 47.

Last Minute News

Ally, FCB have huddled on merger: Wilson

NEW YORK—Ally & Gargano, which has been seeking a way to expand its international presence *(see related story at right)*, has had "recent" merger conversations with Foote, Cone & Belding, confirmed Allan Wilson Jr., FCB exec vp-finance. Mr. Wilson emphasized, however, that the talks are "not active at this point."

ATW says it's shedding 2nd account

NEW YORK—Advertising To Women says it has resigned a second account, Wella Corp., Englewood, N.J., with a $3.6 million budget, as part of its restructuring *(see related story on Page 6)*. At press time, president Lois Geraci Ernst had yet to announce any new "equity" accounts. The second resignation leaves her agency with Carlyle Custom Convertibles, the American Home Sewing Assn., G.D. Searle & Co.'s Tanner of North Carolina division and *Good Housekeeping*. Also, ATW vp-executive art director Ray Seide has moved to Campbell-Mithun, Minneapolis, in the new post of vp-creative director.

Triple Crown mounts sponsorship effort

LOUISVILLE—Triple Crown Productions has been formed to seek corporate sponsorship for the prestigious Triple Crown thoroughbred horse races. It will offer a sponsorship to one company willing to pay between $3 million and $5 million, sources say. The events—including the Kentucky Derby, Preakness and Belmont Stakes—are being marketed together.

(Continued on Page 8)

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DC2001ACONGLI FMJE M
CONGRESSIONAL INFO SERVICE
SPI ACQUISITIONS
4520 EAST-WEST HWY #800
WASHINGTON DC 20014

Icahn's ax fells O&M, TWA exec

By BRIAN MORAN

NEW YORK—Carl Icahn's Trans World Airlines, in the first major sign that the leveraged buyout trend may damage the advertising business, fired Ogilvy & Mather last week, dismissed its top marketing executive and slashed its U.S. ad budget.

The dismissal of O&M, which had the $70 million account since 1979, also is the first significant operational change at TWA initiated by Mr. Icahn since that New York investor took control of the airline last summer.

Emma Hill, an analyst who covers both ad agencies and the cosmetics and household-goods industry at Wertheim & Co., sounded a note of warning for advertiser and agency executives. "These leveraged buyouts are not being made by marketing executives," she said. "When management that is financially sophisticated takes over a company with a leveraged buyout, using significant levels of debt to make the acquisition, their natural inclination is going to be to cut the advertising budget to improve earnings and help improve the cash flow and, ultimately, pay down the debt."

But not everyone agrees.

"I think the issue here is not leveraged buyouts as much as it is that this is the kind of thing that happens when there is an abrupt change in management," commented Kenneth Olshan, chairman of Wells, Rich, Greene/Worldwide, a former TWA agency and currently the shop handling Pan American World Airways.

While TWA confirmed it had fired O&M, there still seemed to be some mystery last week about the status of the relationship.

A prepared statement issued by O&M indicated that agency apparently believes it has a chance to retain the account. In the statement, William Phillips, chairman of Ogilvy Group, said, "We have not as yet met with the new owners, but that is scheduled for

(Continued on Page 104)

Ally splits with foreign shop group

By STEWART ALTER and LAUREL WENTZ

Ally & Gargano is splitting up the international network it helped found seven months ago.

The New York agency and London-based Grandfield Rork Collins International both are seeking new partners, though A&G hopes to keep some of its European affiliate relationships with agencies in the GRC network. GRC International consists of six overseas agencies with a total gross income of about $90 million.

"There were differences of agreement about how to proceed," said A&G chairman Amil Gargano, adding that the agencies' styles were "incompatible." A&G has retained Richard Seclow, who recently left his post as president of New York-based Geer, DuBois (AA,

(Continued on Page 104)

HIGHLIGHTS

Buyout backlash hits ad business 1

Carl Icahn's Trans World Airlines, in the first major sign that the trend toward leveraged buyouts could be damaging for the advertising business last week fired Ogilvy & Mather, dismissed its top marketing executive and slashed its U.S. ad budget.

Net tv sales winds shift 3

Network tv sales divisions could soon be grappling with fundamental policy shifts in the way they sell their time, especially in the area of advertiser guarantees and commercial length.

Ford eyeing Alpha bet? 3

Ford Motor Co. may create an Alpha Corp. subsidiary that would parallel General Motors' Saturn Corp. The subsidiary would open the doors for an advertising agency assignment to handle the stand-alone Alpha nameplate and its separate dealer network.

Y&R gets a tough call 3

AT&T's consolidation of its $80 million Opportunity Calling program at Young & Rubicam comes as observers are terming the program too complicated to attract most consumers. An AT&T official acknowledged the promotion needs to be simplified, but said it will continue as long as it contributes to "consumer satisfaction."

P&G out to pin diaper foe 12

Procter & Gamble is laying some heavy punches on its archrival in disposable diapers, apparently believing two new Pampers diapers—and two ad campaigns—are better than one. P&G also is promoting heavily its new Luvs Baby Pants diapers, which are going national.

Cognac on the upscale upswing 76

The quaffing of cognac among young professionals and ethnic groups in search of the good life is infusing the category with growth and spawning new products and line extensions. The category was up 16% in 1983 and 9% last year.

CONSUMER WATCH

Buyers' confidence shaken 84

A sudden tremor of uncertainty about personal and national well-being shook consumers nationwide as the third quarter ended. It has shifted downward buyer attitudes toward consumables, major goods and Christmas shopping plans. One in four Americans feels worse off financially than a year ago—the highest percentage in 18 months, according to the Advertising Age National Poll.

INTERNATIONAL

Ayer plays catch-up 58

N W Ayer is on the verge of buying shares of agencies in Spain, France, Germany, Brazil and Malaysia and is trying to buy into agencies in Hong Kong and Singapore. Spurring all this activity are two potential international clients: The U.S. Travel & Tourism Administration and Iberia Airlines. Ayer won the USTTA account last year and feels it has an inside track on acquiring Iberia's global account, via Spanish creative shop Tapsa.

Venezuela gets Big Mac attack 60

This fall Venezuela has become the second South American country, following Brazil, to sprout golden arches, but there is a catch: McDonald's Venta de Comida, a 100% Venezuelan-owned fast-food chain, says it has first rights to the trademark here and plans to open outlets later this year.

OTHER NEWS

Food marketers eager to emulate Kellogg's winning All-Bran campaign should be pleased with the Food & Drug Administration's proposed policy on the use of medical or health claims to promote foods. Page 4.

People's Savings Bank, the 10th-largest savings bank in the U.S., has more than doubled its ad budget for a new drive in one of the country's most competitive banking markets. Page 10.

American Airlines has switched the focus of its advertising in a national campaign that targets executives on the move. Page 12.

Rock music figured in the plans of several companies last week, ranging from Coca-Cola Co. to Trans World Concerts. Page 14.

Ad spending could increase substantially in a battle for the $260 million cat box-filler market as upstart Blue Ribbon Marketing turns its nose up and aims an ad campaign, using outdoor boards and tv, designed to play up Blue Ribbon cat litter's olfactory superiority. Page 72.

CAMPAIGNS BREAKING

Procter & Gamble's Crush International. Cincinnati, this week breaks a tv and couponing effort to support its reformulated orange, grape and strawberry soft drinks—with 10% juice—in southern Illinois and adjoining markets. Cunningham & Walsh, New York, handles (AA, Oct. 7).

Ocean Spray Cranberries, Plymouth, Mass., breaks a multi-million-dollar "educational" tv campaign today for its line of aseptically packaged juice and fruit-drink concentrate (AA, July 15) in New England, followed by a rollout across the country. Print begins in January. Kenyon & Eckhardt, Boston, handles.

Sandoz Nutrition Corp. breaks print ads featuring its reformulated hot cocoa mix in November issues of *Family Circle, Good Housekeeping, People, Self, Seventeen* and *Weight Watchers*. Network tv runs through December. Needham Harper Worldwide, Chicago, handles the $15 million effort (AA, Sept. 16).

COMING THURSDAY

Corporate America's newest sweetheart—and ubiquitous spokeswoman—is a 17-year-old, gum-chewing, 4-ft., 9-in. West Virginian. Mary Lou Retton already may have vaulted into history as the most successfully marketed athlete ever.

In Special Report: Business offices around the country have become playing fields for star athletes, pro teams and sports marketing specialists. Their goal? To push further into big-league marketing territory.

REGULAR FEATURES

ADBEAT	97	EDITORIAL	18	PERSONAL PRIVILEGE	28
ADVERTISING MARKETPLACE	93	FOR THE RECORD	101	PHOTO REVIEW	32
AGENCY PEOPLE	80	FORUM	20	PRESSTIME	8
BRADY'S BUNCH	74	LETTERS	22	QUARTERLY EARNINGS	90
CON-SID-ERATIONS	18	MEDIA PEOPLE	70	REGIONAL NEWS	86
CORRECTIONS & CLARIFICATIONS	6	OBITUARIES	74	VIDEOTECH UPDATE	66
DIRECT MARKETING	88	ON THE LOOSE	72	WORLD NEWS ROUNDUP	3

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Another tobacco ad ban closer

By STEVEN W. COLFORD

Washington—Congress last week moved closer to doing to smokeless tobacco what it did to cigarets in the 1970s—boot its advertising off tv and radio and brand its packages and print advertising with health warnings of varying severity.

House legislation, sponsored by tobacco-industry critic Rep. Henry Waxman (D., Cal.), still faces a tough road when it moves to the full commerce committee, probably in November. Then, Rep. Tom Tauke (R., Ia.) plans to offer an amendment eliminating the bill's electronic-ad-ban provision.

The advertising industry, along with the Smokeless Tobacco Institute, is fighting both the House

(Continued on Page 106)

Newhouse is MPA's 'solid' No. 1

New York—S.I. Newhouse Jr. was "solidly the No. 1 choice" to be named the Magazine Publishers Assn.'s 1985 publisher of the year, says Philip Howlett, chairman of the selection committee.

S. Newhouse

"Clearly, Si Newhouse understands how to make the publishing formula work best, that delicate blending of editorial and publishing skills that produces outstanding, profitable magazines," said Mr. Howlett, senior vp-magazines, Time Inc.

Mr. Newhouse is chairman of

(Continued on Page 102)

West Coast news

Tiger lets marketing staff go

Hungry Tiger, Van Nuys, Cal., has laid off its two-person marketing staff and may end its relationship with agency Kresser, Craig/D.I.K., Los Angeles, following the company's acquisition by Irvine, Cal.-based W.R. Grace Restaurant Co. Hungry Tiger's office eventually will close and fold into Grace. Kresser, Craig will meet with Grace Nov. 1, though sources suggest the $1.5 million account is likely to move to Larsen, Bateman, McAllister, Santa Barbara, which

(Continued on Page 106)

ADWATCH

Cherry Coke takes fizz out of sister brands

By JULIE FRANZ

Despite the furor over whether new Coke will outsell Classic Coke, the success of Cherry Coke may be the real news.

Introduced nationally in July, Cherry Coke surprised everyone by making a splash at retail when Coke and Classic Coke were vying for shelf space. By mid-August a few retailers, when asked to compare Coke and Classic Coke sales, were saying that Cherry Coke was their best seller (AA, Sept. 2).

Initial network tv and radio spots position Cherry Coke as an "out and outrageous" alternative to other colas. And it looks like the $50 million spent to launch the product is getting a surprisingly strong and fast payback.

Cherry Coke's advertising made an impressive debut on Advertising Age's adWatch survey of advertising awareness last month, coming in at the No. 3 spot in the soft-drink category. With 2.7% first mentions, Cherry Coke bumped advertising for 7UP (2.1% of first mentions) out of its accustomed third-place ranking and back to the No. 5 slot. Dr Pepper held the No. 4 spot with a 2.5% share.

PepsiCo Inc.'s Slice, this year's other much-talked-about new soft drink, fell to eighth position (with 1%) in September after having been No. 4 for the past two months.

Meanwhile, Classic Coke is moving up in the survey. Last month it received 1.1% of first mentions to give it the seventh spot. Classic first appeared in adWatch data last month with 0.6% ad awareness to put it in ninth place.

With consumers recalling advertising for the various Coke subbrands, awareness for "mega-brand" Coca-Cola continued to fizzle. Asked to name the first soft-drink advertising that came to mind, 43.1% last month named Coca-Cola, a drop of 5.8 percentage points from August.

Pepsi-Cola added 1.9 points to its awareness score, rising to 27.6%. That's the highest level of ad awareness Pepsi has gotten since it dropped 8.2 points to 24.0% in June.

Coke's lower ad awareness score isn't a reflection on the tv campaign that drops the distinction between Coke and Classic Coke (AA, Sept. 16).

Those ads only began airing as the September adWatch survey polling was ending. Any significant effect generated by the "We've got a taste for you" commercials is likely to show up in the next few months.

AdWatch is a joint project of Advertising Age and SRI Research Center, Lincoln, Neb. Ad awareness is measured by asking a nationally projectable sample of consumers to name advertising in a variety of product categories that first comes to mind from all seen, heard or read in the previous 30 days.

In September, 1,000 adults were questioned by telephone. Under adWatch methodology, an increase or decrease of 2.8 percentage points is considered statistically significant and attributable to more than sample variation.

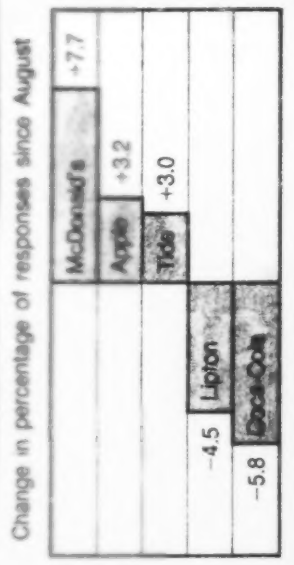
McDonald's was this month's biggest gainer, gaining 7.7 percentage points. The 43.9% share of first mentions in the fast-food advertising category was its highest level so far this year.

Consumers weren't as hungry for Burger King ads in September, and neither were they likely to remember Wendy's new theme "Choose fresh. Choose Wendy's." Ad recall for Wendy's fell 2.2 points to 12.6%, while BK's ad awareness continued its slide, last month dropping 2 points to 11.4%

(Continued on Page 98)

September winners & losers

Question: Of all the advertising for (product category) you have seen, heard or read in the past 30 days, which ad first comes to mind? Note: A change of plus or minus 2.8 percentage points is statistically significant. Source: SRI Research Center Inc., Lincoln, Neb.



At this rate, we're truly breaking tradition.

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time has come to do away with the long-established practice of charging national advertisers disproportionately higher advertising rates than local advertisers. That's why The Boston Herald has responded with The Preferred Position Package Plan, available to national advertisers only.

Not only will The Boston Herald tailor make a guaranteed position plan for your ads, you'll pay only $70 per column inch. This is a 42% discount off the regular rate.

Simply run 200 inches or more within a 30-day period. Ad sizes may be different and copy changes are permitted.

The Boston Herald Preferred Position Package Plan—a break in tradition and a break for you!

For further information, call Diane Ripstein, National Advertising Manager, at (617) 426-3000.

The Boston Herald

Represented nationally by Bentham Newspaper Sales

FDA policy targets food health claims

By STEVEN W. COLFORD

Washington—Food marketers eager to emulate Kellogg's winning All-Bran campaign should be pleased with the Food & Drug Administration's proposed policy on the use of medical or health claims to promote foods.

The agency's latest proposal eases present policy on what food marketers should not do, as well as on FDA enforcement of health claims, said agency sources.

It reflects a more encouraging attitude toward marketplace freedom, an idea that has split the FDA hierarchy into two camps: Political appointees and career regulators, who want a tight rein on food advertising.

The proposal maintains a hard line against any food marketer suggesting that its brand is superior to others.

"If it's proven that bananas are good for you, then they will be able to say that," an agency official said. "But United Brands couldn't say that Chiquita bananas from its eastern slopes are better for you than other bananas."

Another key element in the FDA proposal requires that full nutrition labeling be used by any food marketer who makes medical claims, according to the FDA official.

Perhaps the most controversial aspect of the original policy was the formation of a government committee to reach a consensus on dietary patterns and to develop "appropriate messages" for food marketers. That idea is retained in the latest version, according to the agency official.

But instead of suggesting that campaigns be "pre-cleared" by the committee, the latest version encourages "discussion" with the FDA before marketers decide on any health claims in labels. Marketers who fail to discuss their campaigns with the FDA or fail to use its "appropriate messages" risk agency action if their campaigns are found unacceptable by the committee.

Chaired by the FDA commissioner, the committee will include representatives of the Federal Trade Commission and various offices of the Public Health Service.

The latest proposal's specific criteria, according to a well informed source, include:

- Labeling should be educational.
- Claims will need consensus substantiation.
- Claims must emphasize the importance of a "total dietary pattern."
- Claims must not over-emphasize the role of a single food.

According to statistics provided to the FDA, there has been a 1% shift in the $4 billion cereal market toward high-fiber products in the last year. Kellogg Co., Battle Creek, Mich., which initiated its high fiber campaign a year ago, has won the lion's share of the shift, although rivals have made up ground in recent months with their own high-fiber cereals. J. Walter Thompson USA, Chicago, handles the Kellogg account.

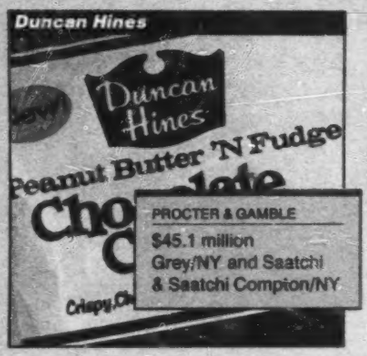
Enforcement is downplayed in the proposed policy. It also represents a significant departure from

(Continued on Page 101)

Megamergers

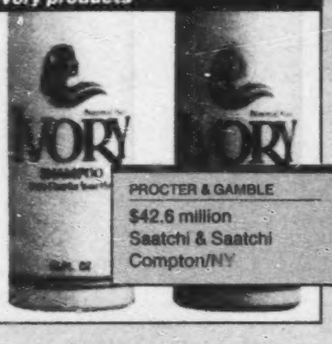
Procter & Gamble/Richardson-Vicks top brands

Duncan Hines



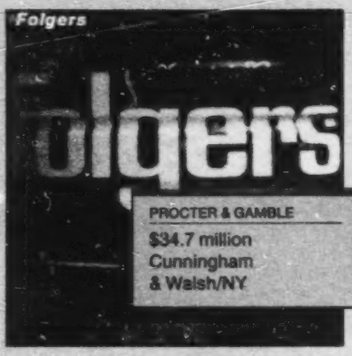
PROCTER & GAMBLE
$45.1 million
Grey/NY and Saatchi & Saatchi Compton/NY

Ivory products



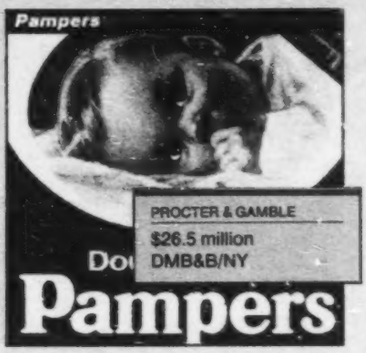
PROCTER & GAMBLE
$42.6 million
Saatchi & Saatchi Compton/NY

Folgers



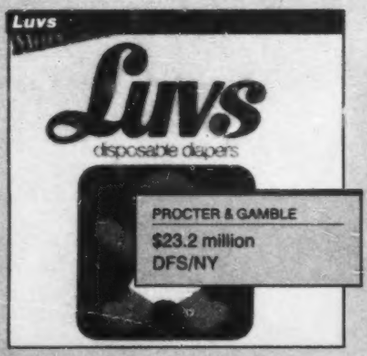
PROCTER & GAMBLE
$34.7 million
Cunningham & Walsh/NY

Pampers



PROCTER & GAMBLE
$26.5 million
DMB&B/NY

Luvs

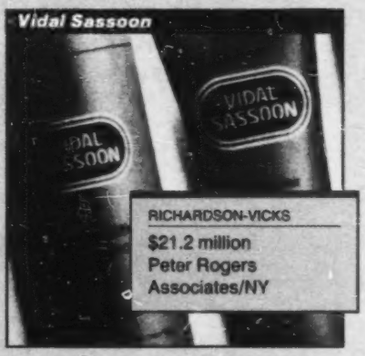


PROCTER & GAMBLE
$23.2 million
DFS/NY

Oil of Olay

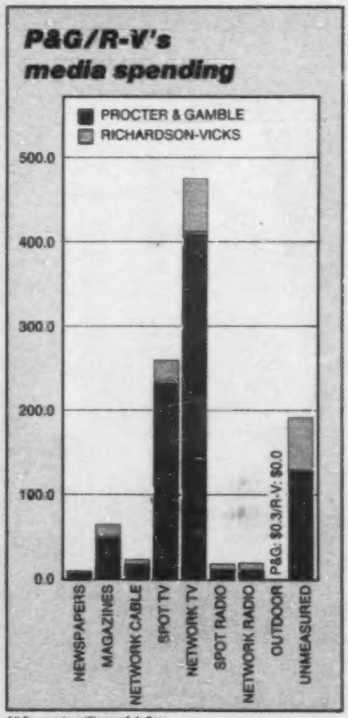
RICHARDSON-VICKS
$24.8 million
Y&R/NY

Vidal Sassoon



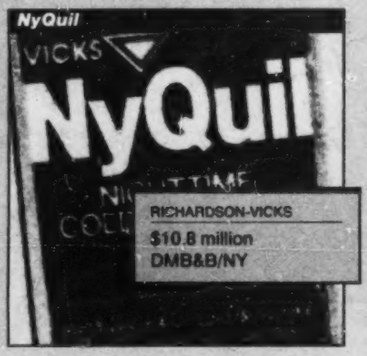
RICHARDSON-VICKS
$21.2 million
Peter Rogers Associates/NY

P&G/R-V's media spending



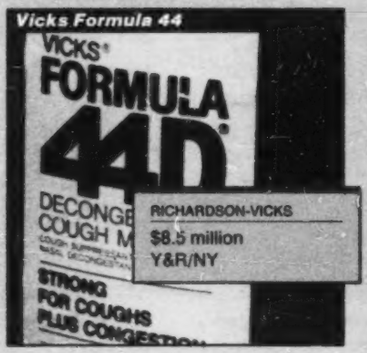
All figures in millions of dollars.

NyQuil



RICHARDSON-VICKS
$10.8 million
DMB&B/NY

Vicks Formula 44



RICHARDSON-VICKS
$8.5 million
Y&R/NY

Tempo antacid

RICHARDSON-VICKS
$6.1 million
Y&R/NY

Other products, Procter & Gamble: Crest, $29.6 mil, DMB&B/NY; Downy, $19.6 mil, Grey/NY; Encaprin, $18.7 mil, DFS/NY; Pringles, $18.0 mil, WRG/NY; Always, $17.8 mil, DMB&B/NY; Sure, $17.1 mil, WRG/NY; Crisco, $17.1 mil, Saatchi & Saatchi Compton/NY; Head & Shoulders, $16.7 mil, Tatham-Laird & Kudner/Chi; Tide, $16.7 mil, Saatchi & Saatchi Compton/NY; Dawn, $16.6 mil, DMB&B/NY; Era Plus, $16.5 mil, Leo Burnett/Chi; Cascade, $16.0 mil, Saatchi & Saatchi Compton/NY; Citrus Hill, $15.3 mil, Cunningham & Walsh/NY; Pepto Bismal, $15.0 mil, DMB&B/NY; Banner, $7.6 mil, WRG/NY; Biz, $7.1 mil, TLK/Chi; Bold 3, $11.7 mil, Grey/NY; Bounce, $9.0 mil, DMB&B/NY; Bounty, $11.2 mil, DFS/NY; Charmin, $7.6 mil, DMB&B/NY; Cheer, $9.4 mil, Leo Burnett/Chi; Chlorasseptic, $6.0 mil, Leo Burnett/Chi; Coast, $7.8 mil, TLK/Chi; Comet, $6.4 mil, S&SC/NY; Crush, $3.9 mil, Cunningham & Walsh/NY; Gain, $3.0 mil, WRG/NY; Gleem, $4.5 mil, Leo Burnett/Chi; Head & Chest, $4.3 mil, Leo Burnett/Chi; Jif, $11.9 mil, Grey/NY; Joy, $11.1 mil, Grey/NY; Lilt, $5.6 mil, Leo Burnett/Chi; Mr. Clean, $7.2 mil, TLK/Chi; Oxydol, $7.8 mil, DFS/NY; Pert, $6.3 mil, Leo Burnett/Chi; Prell, $8.4 mil, WRG/NY; Piff, Puffs, $5.0 mil, Grey/NY; Puritan, $7.8 mil, Grey/NY; Safeguard, $8.7 mil, WRG/NY; Scope, $12.8 mil, DMB&B/NY; Secret, $14.7 mil, Leo Burnett/Chi; Solo, $4.9 mil, DFS/NY; Spic n Span, $7.2 mil, WRG/NY; Top Job, $6.9 mil, S&SC/NY; Zest, $8.5 mil, JCT&M/NY **Other products, Richardson-Vicks:** Vicks Lifestage Vitamins, $5.3 mil, DMB&B/NY; Sinex, $4.2 mil, DMB&B/NY; Clearasil, $4.0 mil, DMB&B/NY; Fixodent, $3.3 mil, Carrafiello-Diehl & Assocs.; Formby's, $3.0 mil, Slater Hanft Martin/NY; Creamcoat, $2.5 mil, DMB&B/NY; Fasteeth, $1.9 mil, Carrafiello-Diehl & Assocs.; Thompson Water Seal, $1.2 mil, Slater Hanft Martin/NY

Mergers

(Continued from Page 1)

than three times book value for a company loaded with long-established brands made financial sense.

But there was one fundamental proviso. Wall Street had to assume that if a brand could be merged into a megaparent company with its own strong brands and big ad budgets, it could be marketed with greater clout and its share of market could be expanded.

Wall Street figured that if it could up the ante, the small players would fold their hands. Regional upstarts not already in the megaparent fold would have to stay close to home to survive.

If the upstart brand spent $50 million to go national, the megacompany could spend $75 million or $100 million to go against it. The megaparent would have the top creative talent at the biggest and most sophisticated agencies. Its own corporate brand management would have resources that no upstart could match. And by the sheer size of its advertising and promotional spending, the megaparent could meld its brand into its corporate family buy and effect media economies of scale that the upstart could never compete against.

Bigness, Wall Street calculated, would bring together the top marketing professionals and give them an outlandish competitive edge.

The call went out almost immediately to brand managers to find synergies between the businesses of the acquirer and the acquired. On the surface, the proud new parents could expect greater influence getting retail distribution as their sales forces approached store buyers with massive product families backed by $1 billion in ad spending and impressive promotion budgets. On the media side, the parents could figure that magazines would offer even greater discounts for the volume advertising of the megaparent. Tv stations would bend their cost-per-thousand rates for clients that before were important, and now were so huge they became essential. Networks could be played off against each other, on the premise that none of the Big 3 could afford to be cut out of the media plan of a $1 billion advertiser.

But the *assumption* of clout seems to far outweigh the actual consolidation of spending from the mergers. In the cases of RJR/-Nabisco and PM/General Foods, the parent company acquired another concern whose media philosophy was totally different from its own, and the media mixes did not match.

Only in the case of P&G/Richardson-Vicks did the new subsidiary bring any significant amount of ad spending to the parent's previous media strength. And in this case, R-V simply helped P&G to further its claim as the biggest tv spender in the world. In spot tv, P&G before the merger had led No. 2 spender PepsiCo by $85 million; now P&G leads by $108.2 million. And in network tv, where P&G had been spending $159.6 million more than No. 2 AT&T, the Cincinnati-based megaparent now leads by an astounding $200 million, nearly doubling AT&T's spending.

P&G already had clout in tv. The Richardson-Vicks acquisition simply added to it. Much of the R-V tv budget is used to back its cold remedies, primarily NyQuil, DayQuil and Vicks Formula 44D. Since those budgets are spent during the cold season and not spread out through the entire year, the $70 million R-V will add to P&G's tv spending will have impact greater than its dollar worth.

But exercising that clout is a more complicated matter than simply telling stations that what once was a $400 million tv spender is now a $470 million account. P&G handles network tv negotiations in-house.

R-V has its agencies make its buys. P&G also uses a complex agency-of-record system to purchase its spot tv time. Merging the tv budgets of P&G and R-V poses problems of assignment among agencies, and the outcome of that merger could have dramatic impact on the roles agencies play in the P&G roster, although things may shake out over time.

More immediate for the agencies is the entire question of who will hold and who will lose megacompany assignments. The megamergers have created numerous "soft" client conflicts; agencies may not be representing directly competitive brands, but their megaparent assignments could be jeopardized because the agency serves unrelated brands or subsidiaries of competing megaparents. The client-conflict question is under the

(Continued on Page 40)

Megamergers

Philip Morris/General Foods top brands

All figures in millions of dollars.

Other products, Philip Morris: Lite Beer, $67.0 mil, Backer & Spielvogel/NY; Virginia Slims, $26.5 mil, Leo Burnett/Chi; Meister Brau, $21.3 mil, Backer & Spielvogel/NY; Lowanbrau, $18.6 mil, JWT/Chi; Players Select, $17.4 mil, WRG/NY; Like, Sugar Free Like, $5.8 mil, Leo Burnett/Chi; Milwaukee's Best, $4.0 mil, Backer & Spielvogel/NY **Other products, General Foods:** Kool Aid, $27.3 mil, Grey/NY; Crystal Light, $20.3 mil, DMB&B/NY Brim, $19.0 mil, DMB&B/NY; Sanka, $16.9 mil, Y&R/NY; Post Grape Nuts, $11.8 mil, Grey/NY; Oscar Mayer, $11.8 mil, JWT/Chi; Birds Eye Cool Whip, $10.8 mil, DMB&B/NY; Post Fruit & Fibre, $10.1 mil, Grey/NY; Stove Top Stuffing, $9.6 mil, Grey/NY; Minute Rice, $9.2 mil, Grey/NY; Birds Eye Frozen Foods, $8.9 mil, Y&R/NY; Tang, $8.2 mil, O&M/NY; Shake n Bake, $8 mil, O&M/NY; Good Seasons, $7.7 mil, Ted Bates/NY; Country Time, $6.9 mil, O&M/NY; Post Honeycomb, $4.5 mil, Grey/NY; Post Alpha Bits, $3.4 mil, O&M/NY; Post Pebbles, $3.6 mil, O&M/NY; Yuban, $3.3 mil, DMB&B/NY; Post Super Sugar Crisp, $2.3 mil, O&M/NY; Post Smurfberry Crunch, $2.2 mil, O&M/NY; Ronzoni pasta, $2.0 mil, Y&R/NY; Post 40% Bran Flakes, $1.2 mil, Grey/NY; D-Zerta gelatin, $1.1 mil, Grey/NY

Mergers

(Continued from Page 38)

microscope now, and few observers expect advertisers to hold to previous strict interpretations, especially as further megamergers unfold.

That is not the agencies' only problem resulting from the megamergers. The pressure at agencies to stay on the megaparents' rosters is greater than ever, and agencies have to decide what resources to commit to keeping the megaparent brands without scaring off other clients worried that the best and the brightest at the agencies will be lost to them in favor of the bigger company *(see related story on Page 47)*.

Another aspect of the merger craze makes the agency community even more insecure. While advertising certainly played a critical role in making brand names valued assets, the motives for the acquisitions had little or nothing to do with the client-agency relationship. This despite the fact that each of the acquiring companies was itself a major advertiser and understood the value of good advertising and how it comes about. But even after the acquisitions were announced and completed in some cases, corporate management relegated the handling of potential conflicts to secondary considerations.

First, there is the business of accounting for just what was purchased, and then there is the difficult assignment of merging the two corporate cultures. Only then will the agency questions be addressed, and the final outcome will come in drips rather than in one sweeping rush.

In the acquisitions by RJR and Philip Morris, agency considerations played no role at all. The tobacco giants had lost favor with Wall Street, with many investment firms taking the cigaret stocks off their buy lists. A slew of product-liability lawsuits filed against the tobacco companies by persons or descendants of victims of cancer allegedly caused by smoking threatened the very industry itself, although there is now a strong movement afoot to have the cases dismissed and to have liability laws interpreted narrowly. And while Wall Street has soured on tobacco stocks, RJR is completing the largest, most technologically advanced cigaret manufacturing plant in the world in the quaint town of Tobaccoville, N.C., at a cost nearing $1 billion. This new manufacturing machinery will help RJR cut precipitously the cost of producing cigarets and should help boost profit margins.

But the tobacco industry is forecasting that 1995 cigaret sales will be 5% to 10% below 1985 levels, and once the savings from the improved manufacturing capabilities have been assimilated into its bottom line, where would RJR turn to improve quarterly return on stockholders' investments? Diversification into the food business should soothe Wall Street and get RJR's, and even Philip Morris' stock back up. RJR apparently thinks it has solved its problem. Earlier this month, RJR abolished its RJR Development Group, whose charter simply was to find corporations to acquire.

But why food companies? There is little synergy in distribution between food companies and tobacco concerns. Economies of scale must come from combined marketing clout and through the garnering of media discounts from the merger of huge, if divergent, ad budgets.

Bonnie Cook, an analyst with Salomon Bros, New York, explains the lure of food companies this way: "For the last four years food stocks have been outperforming the market. During the period of disinflation when commodity costs were flat or declining, it was a much more favorable environment for food stocks. In high inflation, people didn't want them [food stocks]."

In periods of high inflation, corporate raiders look for companies with tremendous cash flow, which explains in part why media companies became hotter takeover targets than food companies.

"The problem is, everybody is on a takeover kick," said Ms. Cook. "They want instant gratification. In the General Foods case, it was just a couple weeks from rumor to reality. That's so unusual. A normal deal is to spend two or three months lining up financing.

"There is speculative excess going on now. The market is not listening to any kind of reason."

P&G's acquisition of Richardson-Vicks had less to do with buying its way into entirely new product categories than it did with the prevailing theory that acquiring existing brands is cheaper and wiser than starting something new. There were also some apparent synergies, especially in distribution.

Hugh Zurkuhlen, another analyst at Salomon Bros., called the P&G buyout "a wonderful and rare leverage of P&G's balance sheet," predicting that P&G could still afford to compete in the acquisition waters.

"R-V and P&G have synergies in distribution and marketing channels, which will be helpful to both companies," said Mr. Zurkuhlen. "It appears, given P&G's [so-

(Continued on Page 44)

Megamergers

RJ Reynolds/Nabisco top brands

All figures in millions of dollars.

Other products, RJ Reynolds: Winston, $32.2 mil, McCann-Erickson/NY; Salem, $31.1 mil, Wm. Esty/NY (trade); More, $26.1 mil, Leber Katz Partners/NY; Now, $21.0 mil, Leber Katz Partners/NY; Century, $13.6 mil, Tatha-Laird & Kudner/Chi; A-1 Steak Sauce, $12.7 mil, Marschalk/S.F.; Canada Dry, $12.3 mil, Y&R/NY; Hawaiian Punch, $10.6 mil, Dentsu Y&R/LA; Bright, $10.3 mil, Leber Katz Partners/NY; Smirnoff, $9.0 mil, McCann-Erickson/NY; Ortega Mexican Foods, $8.6 mil, Marschalk/S.F.; RJ Reynolds corporate, $7.7 mil, Leber Katz & Partners/NY; Grey Poupon, $6.3 mil, Marschalk/S.F.; Inglenook wines, $6.2 mil, Dentsu Y&R NY; Black Velvet, $4.0 mil, McCann-Erickson/LA; Harvey's Bristol Cream, $3.5 mil, Dentsu Y&R/NY; Lancers wine, $2.7 mil, Y&R/NY; Sunkist, $1.9 mil, FCB/Chicago; Chun King, $1.6 mil, Marschalk/SF; Club Cocktails, $2.1 mil, Leber Katz Partners/NY; Jose Cuervo tequila, $1.8 mil, Y&R/NY; Patio frozen Mexican foods, $1.0 mil, Marschalk/SF; Doral, $1.0 mil, Long Haymes & Carr, Winston-Salem/NC **Other products, Nabisco:** Life Savers, $7.8 mil, DFS/NY; Planters Nuts, $7.3 mil, B&J/NY; Planters Cheese Snacks, $5.5 mil, B&J/NY; Butterfingers, $5.2 mil, B&J/NY; Planters Corn Chips, $5.0 mil, B&J/NY; Ritz Crackers, $4.7 mil, Wm. Esty/NY; Breath Savers, $4.5 mil, DFS/NY; Bubble Yum, $4.5 mil, DFS/NY; Fig and Apple Newtons, $3.6 mil, Wm. Esty/NY; Better Cheddar Crackers, $2.6 mil, Wm. Esty/NY; Bonkers, $2.5 mil, DFS/NY

Mergers

(Continued from Page 40)

so] success in new products, that it's easier to acquire existing products with name recognition [and market them heavily]. There's a question of what's the numerical value of a brand name? In today's competitive environment, P&G is buying a bunch of brands that it feels have great potential, and it's easier than starting from scratch."

Jay Freedman of Kidder Peabody added, "Conceptually, the merger is positive. It will give P&G exposure in businesses they've been trying to build; it will give them an entree into skincare and nutrition, and it will give them products in areas where they are already strong, like Vidal Sassoon haircare products. P&G is bringing most of the important distribution and marketing channels to the party. Richardson-Vicks, however, is noted to be strong in drug-chain outlets. The deal makes sense, but P&G paid a hefty price for it. Financially, they'll have to manage this deal very well in order to make it pay off."

The sheer size and marketing clout of the merged companies should give P&G and the others a marked advantage in making these deals pay off.

In a report prepared following the Beatrice acquisition of Esmark, Salomon Bros.' Ms. Cook wrote: "We believe that the [greater] spending ability is of major importance, since marketing and advertising expenditures are a key determinant of market share in the food industry. Even if competitors were to spend a larger percentage of sales on advertising and promotion, their absolute dollars would appear small relative to Beatrice."

Ms. Cook noted as an example of the power of clout the soft-drink and tobacco industries, in which two major companies in each industry dominate the expenditures behind new and existing products. "These companies have continued to gain a larger share of the market and have raised the cost of new-product introductions to almost prohibitive levels for smaller competitors," she said.

Following the RJR and Philip Morris acquisitions, Ms. Cook noted, "A $3 billion or $4 billion food company used to be large. Now they have huge dollars to contend with [from these even bigger companies] so there may be more consolidation just to be able to compete. It is being carried to the extreme. Marketing spending is very relevant when you only have 1% or 2% growth over-all because that determines a company's ability to market and push those products."

There are two primary ripple effects to this trend of consolidating companies and merging brand families. The media will be under mounting pressure to find ways to soften the influence the megacompanies will have over their own pricing structures, and several major brand-management teams will have to mesh, creating an entirely new culture in the purchasing of media time and space.

Magazines see little effect

Even before the mergers, R.J. Reynolds Industries and Philip Morris Inc. were the two biggest magazine advertisers. Their acquisitions just made each one bigger than before, although PM, with its acquisition of General Foods, gained on RJR in magazine spending. RJR, however, became the first advertiser to top $200 million in magazine spending.

The impact was less severe for Procter & Gamble's purchase of Richardson-Vicks, although P&G now is a respectable $65 million magazine spender.

Most magazine publishers seemed to think the megamergers would provide those companies with more clout with magazines, but none thought the clout would be able to make the publications break or drop their rate cards.

Philip Howlett, senior vp-magazines, Time Inc., said, "I rather like our chances with our magazine group in terms of this trend, because we have not been enormously strong in package goods in the past. A lot of these companies [General Foods, etc.] are suddenly moving into discount opportunities a company like Philip Morris had. Maybe they will take a more careful look at some of the propositions we've been putting forward, because the price may be right, too. I can see General Foods, with a number of its products, finding they'd like to try some of...these [Time Inc.] magazines." He is optimistic, though he realizes it "may not mean suddenly moving $50 million into magazines."

Robert Burton, president, ABC Publishing, added, "Two companies together have a lot more clout. You're not going to break rates [for them], but they're going to have clout." It has been his experience, with ABC Publishing's industrial trade publications, that when big companies combine, "you're not looking at the same kind of ad volume, you're looking at less. They're not going to need two schedules, they're going to

(Continued on next page)

Megamergers

Beatrice buy would break up Dutt's dream

By JULIE FRANZ

Kohlberg, Kravis, Roberts & Co.'s bid for Beatrice Cos. imperils former chairman James Dutt's dream of creating "a premier worldwide marketer of food and consumer goods" just as that dream was about to become reality.

Wall Street is firm in its belief that Chicago-based Beatrice will have to be broken up to finance the deal that includes a $4.9 billion cash transaction and the assumption of Beatrice's $2.5 billion debt.

Even with former Esmark chairman Donald Kelly and other former Esmark executives behind the transaction, the breakup of Beatrice to finance the deal, if successful, is almost inevitable, one financial analyst said. Mr. Kelly is known for an "if it's broke, sell it" management style, he added.

The financial community scoffed when Beatrice made its $2.7 billion bid for Esmark early last year. And rightly so.

The deal came after a complicated duel of one-upmanship between Chicago's two most powerful food-company ceos.

The duel began early in 1984 when rumors circulated that Mr. Kelly would bid for Beatrice. Beatrice stock rose to $32 a share from the mid-$20s. But Mr. Dutt stated unequivocally at a financial analysts meeting that spring that under no circumstances would he allow Beatrice to be acquired. That was followed by a statement from Mr. Kelly that the rumors were untrue. Beatrice's stock price dropped back.

Then, Mr. Kelly began a move to take Esmark private, backed by none other than Kohlberg, Kravis, Roberts. But Mr. Dutt spoiled the plan by making a play for Esmark, seemingly getting the better of Mr. Kelly. When the Esmark board looked like it was taking too long considering the Beatrice offer, Mr. Dutt put in a second, even higher bid.

While it may look like Mr. Dutt won, in fact Mr. Kelly got the last laugh.

The merger stuck Beatrice with nearly $3 billion in debt on top of an already heavy debt load. As ensuing quarterly earnings reports came out, each painting the same bleak picture, analysts continued to balk. Beatrice stock stood still at 33 and dropped off the buy list at several major financial houses.

As early as six months ago, Beatrice's financial results showed 46% of net income came from the sell-off of businesses, not the sale of goods and services (AA, May 13).

Now, for the first half of fiscal 1986, Beatrice's segment earnings are up nearly 10%, indicating a rise in both sales and the amount of profit reaching the bottom line. But net earnings for the first six months still were sabotaged by lingering merger expenses and the strong performance of the dollar abroad, slipping 26.2% to $128 million on sales of $6.22 billion.

Beatrice finally has everything going for it. The company's "We're Beatrice" campaign is producing 81% aided awareness among consumers. Retailers are lapping up Beatrice food products in anticipation of up to 18% higher sales during the company's multibrand promotions.

Corporate debt, which once reached $4 billion, or 70% of equity, is now at a more manageable 45% and will drop to 30% with the company's planned sale of its Avis, Pennaco, Danskin and International Jensen units, for which the company expects to get $300 million.

The ouster of former chairman Mr. Dutt and his replacement with William Granger Jr. boosted company morale and analysts' faith in the future of the company. During Mr. Dutt's chairmanship, beginning in July, 1979, earnings per share steadily declined and return on equity fell from 18% to 13%.

Mr. Dutt left Beatrice in a Catch-22 situation. While Beatrice finally is back on its feet financially, its brands have been merged, its corporate identity established, the company is without strong marketing leadership. In wielding his arbitrary ax, Mr. Dutt left Beatrice vulnerable to takeover.

But any concern looking to gobble Beatrice most likely would be stepping back 18 months, taking on massive debt and the bothersome project of meshing brands, just as Beatrice did with the Esmark merger.

Mr. Granger has said he is intent on doing "whatever is in the best interest of the shareholders. As far as I know, continuation of Beatrice as an independent company is in [the shareholders'] best interest," Mr. Granger told Advertising Age before the KKR offer.

Mr. Granger said the company is looking abroad for long-term growth, especially to the Far East, where developing markets such as China are ripe for the picking. As the standard of living increases in foreign countries, many U.S. product will begin to "fit nicely," Mr. Granger said.

Beatrice wants to keep a 70%-to-30% ratio of food to nonfood businesses, Mr. Granger said. The food business isn't affected by the economy, while nonfood businesses are more cyclical, he said. While most financial analysts are of the opinion that Beatrice will scuttle its Playtex operations, Mr. Granger said that "for the time being, Playtex fits well both domestically and internationally."

Consolidation of Beatrice's 104 agencies began a year before the Esmark merger and was reduced to the current 12 soon after. Beatrice looked for agencies that could handle large pieces of its business, and in which the Beatrice account would be important to the agency's billings. To that end, none of the 12 agencies has less than $10 million in Beatrice billings, according to senior vp-marketing Harold Handley.

Since the agency consolidation, Beatrice product ads have become more benefit-oriented and more strongly competitive. But most important is the creation of the $30 million "We're Beatrice, you've known us all along" campaign, via HCM, New York, that broke during the 1984 Winter Olympics, before the Esmark merger. The campaign for the first time tied together individual Beatrice brands under one theme. The campaign gave identity to Beatrice Foods, which until then had been a hodgepodge of 430 different brands.

Beatrice's agency reorganization also centralized its media buying, opening up volume discounts. All of Beatrice's network tv buying is done by either Leo Burnett USA or J. Walter Thompson USA, and all its print buys are handled by HCM.

Beatrice also is one of the few companies that can buy an entire freestanding newspaper insert. The inserts, running twice a year since January, 1984, have become the cornerstone of Beatrice's drive to tie its brands with the corporate name, Mr. Handley said.

By combining its brands, Beatrice has been able to develop a new posture with consumers and within the trade, Mr. Handley said.

Streamlining the distribution of Beatrice products by pushing them through the Swift/Hunt-Wesson, Beatrice Meats and Beatrice Dairy distribution systems should improve brand performance. While some of the products initially lost momentum, the system probably will work. But it's still too soon to tell what effect centralized distribution will have on brand performance.

"There's more reasons why it should than why it shouldn't [work]," said PaineWebber food-industry analyst Roger Spencer.

While the system will cut costs, it also will endear Beatrice salesmen with retail grocery buyers, who now have fewer salesmen to see when buying Beatrice foods items.

There's no question that a genuine new-product introduction is more expensive than a line extension, Mr. Handley said. And a line extension is less risky. The key is the price-value relationship of the new product. Frequently, there are opportunities to introduce a product with a higher price-value relationship than any other on the market.

Beatrice already has said it will concentrate on wooing retailers as well as new-product and line-extension activity, which have virtually ground to a halt during the first 12 months after the merger (AA, Sept. 9).

Mergers

(Continued from Page 44)

need one schedule."

This may not necessarily be true with the package-goods companies' mergers; in the PM-GF case, "because the companies are so diverse," he said, there is little chance of both folding their ad efforts into one corporate campaign.

Jack Rehm, president, publishing group, Meredith Corp., said the mergers will "generate bigger and bigger discount opportunities for many companies, now that they are consolidated." But the discounts being offered now—usually corporate discounts, also called volume discounts, offering lower rates if a company runs its many different brands in a magazine—"are pretty aggressive," he said.

In some cases, though, a company that might not have been large enough to earn maximum discounts might now benefit, he said, since Procter & Gamble would be earning maximum discounts.

Mr. Rehm does not envision dramatic changes at GF. "General Foods is a very well run company, a very sophisticated marketer. I don't think anyone would want to change that. I don't think this would lead to dramatic changes in the way they do business."

As for the issue of giant conglomerates periling magazines' independence, as more and more eggs wind up in a smaller number of baskets, Mr. Rehm said, "That may be a theoretical concern, but, practically, what do you do about it? I don't think this is a quantum change; we've always dealt with big companies generating huge amounts of business."

Lynn Mapes, vp-associate publisher, *Reader's Digest*: "When you add the Philip Morris discount to General Foods advertising, magazines that carry a lot of tobacco ads are a lot more attractive to General Foods than a week ago."

Tv-rate savings spotty

Except in a few instances, the top tv buyers don't necessarily have an advantage on a spot-market basis in tv advertising. There are local and regional advertisers who wield even more clout, such as Hardee's in Atlanta or Jack in the Box in Los Angeles.

What the big spot-tv spenders, such as Procter & Gamble and General Foods, have done to overcome an inherent disadvantage in markets such as Denver or Tucson, where they often are outspent by the local supermarkets, is to go to a "market specialist" and agency-buyer-of-record system.

In this system, one agency—and sometimes one buyer—buys for an individual market or group of markets, for all of the client's brands. The agency stays on top of ad rates, marketplace pressures, unusual conditions and other developments that affect pricing.

In network tv, the megamergers could have some impact on negotiations. P&G can add Richardson-Vicks' network spending to its own massive total, and perhaps extract from the nets even better rates than it receives already. However, Philip Morris Inc. and R.J. Reynolds Industries had some units using tv, but the core of their businesses—tobacco—is banned.

Papers' rate gap may close

Newspaper-industry executives expect to feel more pressure from newly merged package-goods giants as the advertisers seek more efficient ways to buy media.

Already, agencies and clients have approached marketing divisions of media giants such as Gannett Co., Taft Broadcasting Co. and Times Mirror Co., looking for "omnibus" deals comprising newspaper, tv, radio and outdoor buys (AA, Sept. 2). Now, newspaper sources expect added pressure from more powerful conglomerates to end the widening gap between national and local ad rates.

Most major dailies charge 40% to 187% more for national insertions than for those at the comparable local rate. Although intended as a bonus for retailers in a newspaper's primary market area, the local rate has increasingly been extended to certain coveted national advertisers as a means to stave off competition from other media.

Since budgets for many national advertisers' print media buys are often set well in advance, the immediate impact of mergers such as the Philip Morris Inc.-General Foods combination may be minimal. Most media reps deal on an agency-by-agency basis for each of a client's products.

But with mergers now allowing advertisers to cut deals more efficiently on widespread newspaper buys—including run-of-press, Sunday magazine and freestanding inserts, for example—the use of centralized media buying and even in-house services may become more prevalent.

Recently formed sales units such as Times Mirror National Marketing and Gannett Media Sales clearly stand to gain the most from such arrangements, because a single call to one of their sales reps can often reserve discounted space in several markets. Some of those independent companies, in turn, have responded by selling recruitment and local ads and taking a commission of a paper's total ad revenues instead of dealing only with national advertisers.

But media companies less homogeneous than Gannett, for example, have had a rougher time making package deals. Tribune Co. has tried to launch its Tribune National Marketing Co. for two years to sell papers as diverse as the *Chicago Tribune*, the *New York Daily News* and the *Orlando Sentinel*.

But the differences among readers of each of these properties has stymied such an effort. Instead, the company has begun using focused Zip code-cluster research to sell its flagship paper with the *New York Times* and the *Los Angeles Times*.

Mergers freshen outdoor

Outdoor-advertising executives anticipate greater attention and, they hope, more ad dollars to be spent on outdoor advertising as a result of the megamergers among package-goods companies.

R.J. Reynolds Industries' past purchase of Del Monte brought more ad dollars to the industry, said John Mathis, senior vp-eastern sales manager, Foster & Kleiser, New York, the largest U.S. outdoor company. Also, Miller Brewing has spent more on outdoor ads nationally since its purchase by Philip Morris Inc., he said.

Jack Donahue, a spokesman for Institute of Outdoor Advertising, New York, said the experience that RJR and Philip Morris have gained in using outdoor may be transferred to their new subsidiaries.

Last year, RJR was the biggest outdoor advertiser, spending $86.9 million. Philip Morris was second with $55 million, compared with GF's $626,000 and Nabisco Brands' $123,000 last year.

Procter & Gamble spent only $849,000 in 1984 measured outdoor advertising, and Richardson-Vicks had no measured outdoor spending last year, so their merger isn't any great cause for excitement in the outdoor business.

Despite a soft year for liquor and tobacco advertising in outdoor—estimated off by 1% to 3% compared with 1984—outdoor ad sales are up about 8% over-all for 1985, Mr. Donahue said.

When Gannett Outdoor, second-largest U.S. outdoor company, formed the Outdoor Network USA this year, it vowed to pursue pack-

(Continued on Page 46)

Mergers up new-product ante

By JUDANN DAGNOLI

Just 10 years ago, it cost a company $10 million to get a new product off the ground nationally.

This year, the average cost of a new-product launch is hovering at $80 million.

And next year, that average cost will break the $100 million barrier, in large part because of the impact of the megamergers in package-goods companies.

"It costs more and more to buy shelf space [in stores]," said Mark Albion, professor of marketing, Harvard University, Cambridge, Mass. "That's why they're spending the money on mergers."

As the fight for shelf space intensifies, and as the failure rate of new-product introductions increases, the value of an established brand name increases for its parent company, he said.

Despite the high risk and high price, new-product introductions are running 8.5% ahead of last year, reversing a trend from the early 1980s. New launches in 1984, for instance, were down 11.3% from 1983.

But in the wake of the megamergers, Mr. Albion and other experts predict new-product launches may start to decline once again.

The merger of food companies also is expected to drive down the number of new-product introductions. New food-product introductions have been declining for several years, dropping 14.1% from 1983 to 1984. In the first nine months of 1985, there were 1,806 new food-product launches. In 1984, there were 2,681, according to Marketing Intelligence Service, Naples, N.Y. In total, food products account for more than half of all new-product startups.

While total new-product launches may have peaked, line extensions of existing brands should continue to increase. This is especially true if food companies continue to be acquired.

Mr. Albion, who is a consultant to companies such as Coca-Cola Co. and Nabisco Brands, said he knows of at least two or three more megamergers in package goods companies that will occur within the next few months.

Mergers

(Continued from Page 45)

age goods and brand advertisers. Gannett Outdoor hired Jay Zitz, former product marketing director at Bristol-Myers, as vp-marketing and sales in September.

Cable cool to mergers

The merger mania has made two of the three biggest spenders in cable tv slightly bigger, but the medium itself has no room to make more favorable deals.

Agency sources said the impact in cable will be negligible on deal-cutting. The major advertisers, which include Procter & Gamble as the biggest and Philip Morris Inc./General Foods as the third-largest, behind Anheuser-Busch, already receive substantial rate discounts, and another $1 million or so isn't going to leverage any substantial rate reduction.

If P&G wants to influence Richardson-Vicks' spending patterns and move R-V into the medium beyond its current $1 million-a-year level, there may be more total money for cable. If that happens, there could be greater competition among the cable networks to snare a bigger percentage of the total pie, but most observers believe cable will continue to be sold as a medium for reaching upscale audiences and not as a discount vehicle.

Furthermore, Nabisco Brands, a minority owner of ESPN, yet only spends only $1.7 million a year on cable. RJR brands spend a paltry $800,000 a year, and few observers expect this to increase much.

Dan Lawlor, vp-sales, USA Cable Network, said, "Cable is a very efficient medium as it is, and rates can't go lower than they are now. I cannot envision the marketplace becoming any more competitive."

Radio outlook static

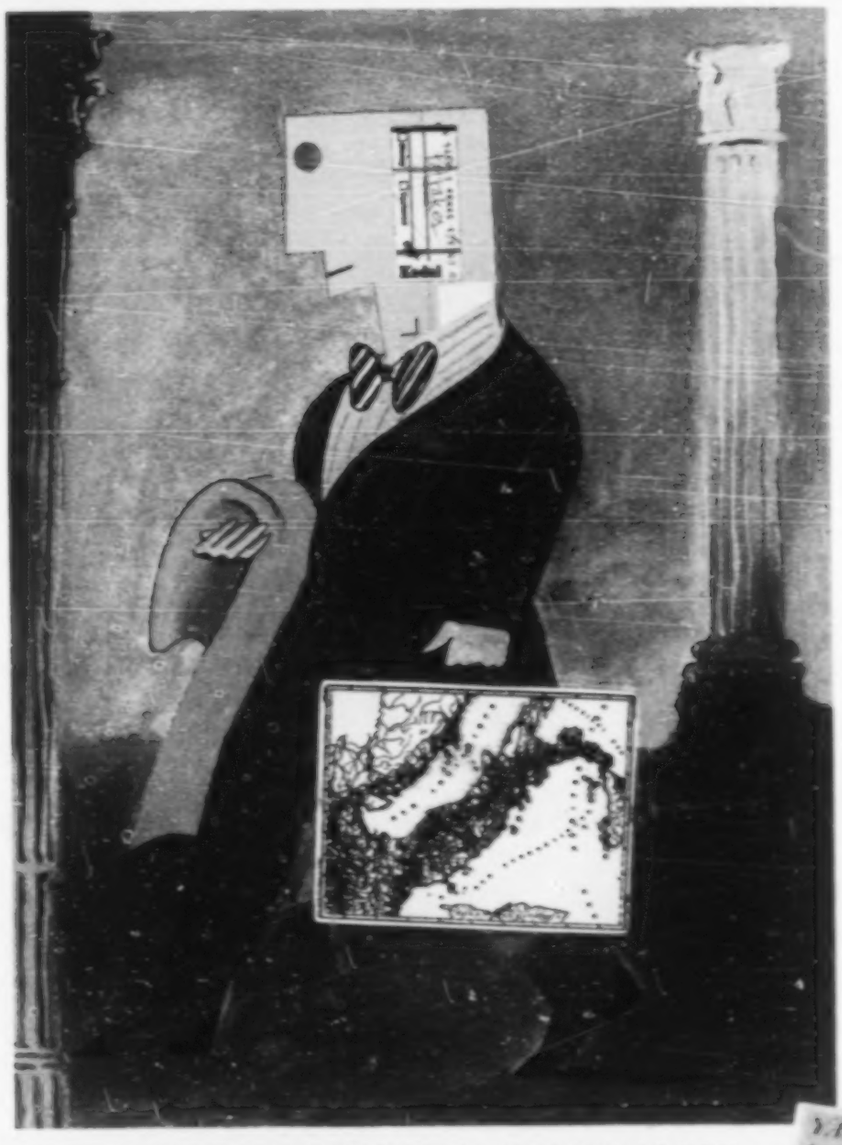
Radio will be affected minimally by the pending mergers. With the exception of Philip Morris Inc., which taps the medium on a spot basis for Miller Brewing, none of the companies are heavy radio spenders.

Procter & Gamble, however, has initiated network radio campaigns for a number of brands in the last year, notably for Crest and Luvs. Some observers think the company will join the ranks of top spenders in the medium by the end of the decade. Richardson-Vicks spends less than $2 million in both spot radio and network.

R.J. Reynolds Industries also is a light user of the medium, as is newly partner Nabisco Brands. Together both spend less than $10 million in radio, and it remains to be seen whether the merger will affect this spending level, which has grown only slightly in recent years. Nabisco, another recent recruit to network radio, spent nearly $5 million in 1984 on a variety of feeds. It uses spot sparsely.

General Foods, too, is a light user of both spot and network. Spot expenditures in 1984 were $2.9 million, mostly in support of product tests and new-product introductions. Network spending was $1.7 million. New partner Philip Morris is a heavy user of local radio. The company supports numerous local sports franchises across the country via radio and tv.

Contributing to this story were Julie Franz, Laurie Freeman and Gary Levin in Chicago; Stuart J. Elliott, Verne Gay, Nancy Giges, William F. Gloede, Lisa Phillips and Pat Sloan in New York. It was written by news editor Craig Reiss, New York, and designed by Bob Zeni.



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Tie-in deals abound for 'Rocky IV' movie

By JAMES P. FORKAN

New York—MGM/UA Entertainment Co. and MGM/UA Licensing & Merchandising hope their "Rocky IV" movie and extensive tie-in plans will pack a powerful one-two punch this holiday season.

More than 30 companies have been licensed to sell scores of "Rocky" products in the U.S. and Canada alone, said Carole Orgel, account exec at the New York-based licensing operation, compared with only a few for the three previous movies starring Sylvester Stallone as the all-American rags-to-riches boxer nicknamed the "Italian Stallion." There also will be more international activity than for the past films.

Bill Dennis, vp-licensing and merchandising, said the biggest tie-in ad support will be on the U.S. promotional/premium tie-in front, where Pepsi-Cola and Church's Fried Chicken will mount a "major" broadcast campaign. That tv-radio budget will top $2 million, breaking on or near the movie's Nov. 27 theatrical release, he added.

Although the various licensees are not expected to back their wares with much media advertising, other than perhaps advertising to the retail trade, the products' retail exposure in a wide variety of outlets should go a long way to build awareness in the movie, MGM/UA officials believe.

The Culver City-based studio itself plans to support the movie with an ad campaign in the "$8 million-to-$10 million" range, via Wells, Rich, Greene, Los Angeles; a record 2,200 theaters will show the film this Christmas season, promoted by two trailers, the first of which already is being seen by moviegoers in 5,000 theaters.

The film, capitalizing on U.S. versus U.S.S.R. feelings as Rocky battles a Soviet fighter, is expected to gross well above $100 million domestically.

In addition, the Baskin & Robbins ice cream chain will promote November as "Rocky Road" month, Ms. Orgel said, adding that B&R also gets some exposure within the film itself.

Parker Pen also plans some media advertising for its "Rocky IV" pen, personalized with Mr. Stallone's autograph.

Waymart Knitting Co. will soon be marketing a coordinated unisex knit and woven sportswear line that, as "the official 'Rocky' apparel line," will duplicate the character's look in the movie. Other apparel products will come from Izod, Allison Mfg. Co., Axelrod & Wilson, Four Seasons, Winston Imports Corp. and Bandana King.

In toys, Appleworks will add an action figure of the new Soviet antagonist Ivan Drago to its "Rocky" line, also selling soft-sculpture versions and playsets built around Rocky, Ivan and continuing character Apollo Creed.

Among the half-dozen other toy licensees are Diamond Toymakers, Globos International, IJE/Kidstuff and Jak-Pak. Sports-related items include Safe-Play's jump ropes and boxing equipment and Zee Toys' bop bags.

A variety of other categories also anticipate being caught up in what is expected to be the next "Rocky" blockbuster, *e.g.*, Fenited Publishing (in-theater souvenir program), Jay Franco & Sons (towels), Hallmark Cards (cards), One Stop Posters, Starmakers (portfolios, posters), Starlog (poster magazine) and Topps Chewing Gum (trading cards). Aside from all the shelf space to be devoted to these products, Ms. Orgel said that various retailers have expressed interest in showcasing "Rocky"-themed boutiques, *e.g.*, Spencer Gifts.

Although it is widely assumed in the industry that there will be a "Rocky V," MGM/UA officials said their licensing deals "made no such assumption." In fact, most of the products refer to "Rocky" rather than "Rocky IV."

The "Rocky" series is one of the most successful in movie history, they added, right up there with MGM/UA's James Bond films, 20th Century Fox's "Star Wars" and Paramount's "Indiana Jones." CBS-TV, which repeated the first "Rocky" last August, plans "Rocky III" for Nov. 16 prime time.

Whether or not Mr. Stallone plays Rocky Balboa again, his visage will remain a long-term fixture on movie screens and retail shelves for years to come, thanks to his "Rambo" movies and the upcoming "Over the Top" feature, plus their various product spinoffs.

"Rambo: First Blood Part II," having ranked as the summer's No. 1 box office hit at $150 million-plus (via Tri-Star Pictures), pulled more than 20 licensees via Stephen J. Cannell Productions, Los Angeles, including Coleco Industries, which plans to market a "Rambo" action figure line next year. That toy line and other products should enjoy a long shelf life, thanks to the late January videocassette release of the first sequel (via Thorn/EMI Home Video) plus the possibility of an animated tv series and the summer, 1987, release of a third "Rambo" film.

Coming in between "Rocky IV" and "Rambo III" will be Cannon Films' "Over the Top," due next summer, a movie featuring Mr. Stallone playing a trucker who competes in arm-wrestling contests.

As might be expected, Cannon's tie-in promo plans will zero in on truckers in a series of arm-wrestling competitions planned around the country for this fall and winter. Besides competing for a Volvo White truck, featured in the film, some footage from the competitors' matches will be incorporated into "Top." Anheuser-Busch's Budweiser, which has tied into "Rocky," will help promote Mr. Stallone's "Over the Top" as well next year.#

Can Hush Puppies heal now?

By PATRICIA STRNAD

Rockford, Mich.—Wolverine World Wide is keeping hush about future marketing plans after announcing the selection of Needham Harper Worldwide, Chicago, as new agency for its Hush Puppies footwear division.

But the agency switch likely is intended to aid the company's whimpering sales and upgrade its puppy dog imagery.

Hush Puppies went to Needham after a five-month review that included an unspecified number of agencies (AA, Oct. 10).

The account is worth about $2 million, according to Leading National Advertisers. But analysts say ad spending is closer to $3 million to $4 million.

The Chicago branch of previous agency Wells, Rich, Greene, New York, was included in the review. Sources also named Della Femina, Travisano & Partners, New York, and Ogilvy & Mather, Chicago, as participants. O&M confirmed its involvement.

Hush Puppies has run into several problems in the past few years, most stemming from the influx of less-expensive imported shoes, said Fred Anschel, vp-analyst at Dean Witter Reynolds, New York.

"The entire footwear industry has suffered as a result of imports from Brazil, the Far East and other countries," Mr. Anschel said. Also, "a few years back Hush Puppies had design problems with their women's shoes and lost a lot of shelf space. It takes time to recover."

Wolverine's revenues, however, climbed to a record high of $379.6 million in 1984, though net income, at $2.2 million, had dropped a precipitous 86% from '81.

The company lost money in the first two quarters of 1985, but a "modest profit" of about $3.6 million is expected for the entire year, which would be a 64% increase from '84, Mr. Anschel said.

The marketer reported third-quarter revenues of $98.7 million, down only 0.02% from the same period a year ago. Net income was up 8% to $1.3 million.

After figuring in the first and second-quarter losses, '85 net income to date is $29,000.

Hush Puppies footwear accounts for slightly less than half of all Wolverine sales.

Wolverine is the nation's largest tanner of pigskin leather. It is combating foreign competition by importing about 20% to 25% of its shoes, including all athletic shoes, and by using more imported pieces in its U.S.-made shoes.

The Hush Puppies line is becoming more fashion-conscious and producing a variety of styles: In the late 1950s, it produced only traditional suede pigskin shoes. It has since broadened the line to include golf shoes, boots and smoother cowhide shoes for men and women.

"I think a turnaround is in the works," Mr. Anschel said. "Hush Puppies may have wanted a new approach [to advertising and marketing] or a new image to support [that upswing]."

This doesn't mean that the division will shed its sad-eyed basset hound trademark. Hush Puppies always has capitalized on comfort in its pigskin leather shoes—"when feet hurt they are much like barking dogs," a company brochure says.

"I can't say whether we'll continue with that strategy," said C.A. Wolfe, president of Needham's Chicago division. "It's really too early to tell. But it's always better to build on the strengths of a brand."#

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AdWatch data valid, two researchers say

New York—Two researchers have validated the monthly Advertising Age adWatch report as a "useful indicator of effectiveness of a brand's advertising" in head-to-head marketing battles.

Writing in the August/September issue of the *Journal of Advertising Research*, Arch Woodside, marketing professor at Tulane University's Freeman School of Business, and Elizabeth Wilson of the University of South Carolina's college of business administration reviewed the results of a survey research study that included top-of-mind awareness (TOMA) levels for advertising of competing brands.

They concluded that a brand's share of consumers who identify the brand's advertising in the TOMA position "may be one useful indicator of effectiveness of the brand's advertising relative to the advertising of competing brands." Their supporting statistical analyses included adWatch's TOMA results for Coca-Cola versus Pepsi-Cola, and the Burger King-McDonald's-Wendy's campaigns.

In recommending that researchers use a constant-sum scale in tracking both TOMA and brand-preference measurements, Mr. Woodside and Ms. Wilson wrote, "Based on findings reported here, reading Advertising Age and SRI [Research Center's] adWatch reports is worthwhile." The adWatch series appears in AA on the last Monday of the month.

"Unfortunately," the journal article noted, consumer product brand managers too often do not include both TOMA and brand preference measurements in their research budgets. "Using a tracking research program of competing brand advertising and brand preference would likely increase the perceived accountability of the impact and importance of advertising in senior management."#

AdWatch

(Continued from Page 4)

of first mentions.

BK's "Aren't you hungry?" theme apparently hasn't been able to stave off encroachment by McDonalds McD.L.T., its new sandwich that bears remarkable similarity to BK's Whopper.

McDonald's is scoring a hit by feeding the nation's craving for a lettuce-and-tomato-topped burger where, as McD.L.T. advertising claims, "the hot stays hot, and the cool stays cool." The McD.L.T. is McDonald's heir apparent to the slow-selling Quarter Pounder (AA, Jan 21).

The McD.L.T. already is backed by more than a half-dozen tv spots, surprisingly broad support for a menu item McDonald's still considers to be in test. The burger is available in about 50% of McDonald's 6,800 U.S. outlets.

Among other significant changes in the September survey results:

- Apple Computer reversed its six-month awareness decline in the **computer category** by gaining 3.2 percentage points to 28.9% of first mentions in September. The change may be due in part to the company's high news profile, as chairman Steven Jobs sparked controversy by leaving the company he had nurtured from its infancy. Apple hit its high for the year in February with 39.2% ad awareness. Apple's perennial competitor, IBM, garnered a 15.9% share of ad awareness. Commodore was No. 3 with 6.3%.
- The second-biggest loser in last month's survey, behind Coca-Cola, was Lipton Tea, falling 4.5 points to a 37.4% share. Lipton still is far and away the **tea category** leader. The next closest competitor for ad awareness, Nestea, registered 4.4% in September. Tetley commanded 3.6% of first mentions.
- Awareness for Procter & Gamble's Tide, down 3.6 points to 25.6% in August, regained ground in the **laundry detergent category** by rising 3 points to 28.5% in September. P&G's Cheer moved back into the No. 2 spot with 5.1%, up 1.1 points from 4.0% in August. Unilever's All, August's second-most-recalled laundry-product advertising with 4.1%, fell into the fourth spot with 2.9% ad awareness. Snuggle moved to No. 3 with a 3.1% share.
- P&G's Folgers and General Foods' Maxwell House are running neck and neck in the **coffee category**, where advertising for both brands came to mind first for 24% of the sample last month. The two have been playing leapfrog, with Folgers holding the top awareness spot for seven of the past nine months. To gain the tie, Folgers advertising rose 1.6 points, while Maxwell House, last month's category leader, gained 0.2 points.
- The **top 10** in over-all, unaided awareness (without asking for a specific product category) in September were, in descending order: Coca-Cola, McDonald's, Pepsi, Miller/Miller Lite, Budweiser/Bud Light, Ford, Pampers, Wendy's, Marlboro and Burger King.#

For additional information or data, contact: Gary Gabelhouse, SRI Research Center, 301 S. 68th St., Lincoln, Neb. 68506. Phone: (402) 489-0351.